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**FISCAL IMPACT STATEMENT**

**LS 6615**

**BILL NUMBER:** SB 213

**NOTE PREPARED:** Feb 8, 2005

**BILL AMENDED:** Feb 8, 2005

**SUBJECT:** Sales Tax on Out-of-State Sales.

**FIRST AUTHOR:** Sen. Young R Michael

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill allows a partial Sales Tax exemption for a recreational vehicle and a full exemption for an aircraft purchased in Indiana, if it is to be titled or registered for use in another state. Also for recreational vehicles, the exemption is equal to the Sales Tax imposed in Indiana minus the Sales Tax that would be imposed in the other state if the transaction had occurred in that state. The bill requires a retail merchant to maintain records substantiating the exemption.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** This bill will have a slight administrative cost impact on the Department of State Revenue (DOR). Any additional costs presumably could be covered using existing staff and resources.

**Explanation of State Revenues:** (Revised) This bill provides a partial Sales Tax exemption for recreational vehicles (RV's), and a full exemption for aircraft, if the RV or aircraft is purchased in Indiana, and is to be titled or registered in another state. This exemption will result in a decrease in state Sales Tax revenue. The amount of Sales Tax revenue that would be lost is indeterminable.

The bill also provides that in order for the purchaser to claim either of these exemptions, the purchaser must transport the RV or aircraft out of Indiana within 30 days, and title or register the RV or aircraft for use in another state. The bill also provides that the purchaser has the burden of providing the retail merchant with an affidavit stating the intent to transport to, and title the vehicle in, another state.

The bill provides that any aircraft purchases meeting the above requirements are fully exempt from Sales Tax.

The Sales Tax exemption for RV's is equal to the Sales Tax imposed in Indiana minus the sales tax that would be imposed in the registration state if the transaction had occurred in that state. The example below illustrates the computation.

"Y", a resident of Virginia (VA), purchases a RV in Indiana (IN), immediately transports the vehicle back to VA, and titles the vehicle in VA. The purchase price of the vehicle was \$100,000. IN's Sales Tax rate is 6%, and VA's sales tax rate is 4%. At the time of purchase, "Y" would pay 4%, or \$4,000, in Sales Tax to IN. The exemption allowed by this bill would be 2%, or \$2,000. The computation is as follows.

6% (IN rate) minus 4% (VA rate) equals an exemption of 2%. The exemption of 2% is subtracted from the Indiana Sales Tax rate of 6%, and "Y" is required to pay 4% of the purchase price of \$100,000, or \$4,000.

If the rate that would have been paid in the state of registration or title is equal to or above the Indiana rate of 6%, then there is no exemption and the purchaser is liable for the entire 6% Sales Tax in Indiana. Conversely, if the RV is registered in a state with no Sales Tax, then the exemption is equal to 6% and no Sales Tax is due. Not taking into account any local option Sales Taxes, there are currently 20 states with a Sales Tax rate of 6% or higher.

Sales tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

*Background:* P.L. 81-2004 (HEA 1365-2004) effective July 1, 2004 repealed a Sales Tax exemption for motor vehicles, watercraft, trailers, and aircraft purchased in Indiana and registered out-of-state. Since the exemption has yet to be repealed for an entire year, and these sales are currently taxable, figures are still not available on the specific increase in Sales Tax revenue due to the repeal of the exemption.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:**

**Fiscal Analyst:** Adam Brown, 317-232-9854.